

TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE



FISCAL NOTE

HB 2265 - SB 2350

February 19, 2022

SUMMARY OF BILL: Updates the definition of a certified green energy production facility to include the storage of electricity for the purposes of eligibility for a pollution control sales tax credit and calculating the minimum tax base for the franchise tax.

ESTIMATED FISCAL IMPACT:

Decrease State Revenue – Exceeds \$33,500/FY22-23 and Subsequent Years

Decrease Local Revenue – Exceeds \$2,900/FY22-23 and Subsequent Years

Assumptions:

- The average number of green energy production facilities certified by the Tennessee Department of Environment and Conservation (TDEC) each year for the production of electricity from 2011 to 2018 was 135.
- For the purposes of this analysis, it is assumed the same number of green energy production facilities will be certified annually for the storage of electricity.
- It can be reasonably estimated that at least 45, or 33 percent, of certified facilities will make exemptible purchases on machinery and equipment used to store electricity.
- It can be reasonably estimated that the average exemptible purchase is \$10,000.
- The total exemptible purchase amount from newly certified facilities is estimated to exceed \$450,000 (\$10,000 x 45 certified facilities) annually.
- The current state sales tax rate is 7.0 percent; the average local option sales tax rate is estimated to be 2.5 percent; the effective rate of apportionment to local government pursuant to the state-shared allocation is estimated to be 3.617 percent.
- The Tennessee single article tax on the price of goods over \$1,600 and below \$3,200 is effectively \$44 [(\$3,200 - \$1,600) x 2.75% single article tax)]. For the purposes of this analysis, it is assumed 45 certified facilities will claim a single article tax deduction on machinery and equipment used to store electricity.
- The local tax rate is only applicable to the first \$1,600 of the sale, making the effective local option sales tax cap \$40 (\$1,600 x 2.5%).
- Pursuant to Tenn. Code Ann. § 67-4-2106, the franchise tax is 0.25 percent of a taxpayer's net worth.
- The recurring decrease in state revenue is estimated to exceed \$1,125 (\$450,000 x 0.25%) in FY22-23 and subsequent years.

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- The recurring decrease in state sales tax revenue is estimated to exceed \$32,341 $[(\$450,000 \times 7.0\%) - (\$450,000 \times 7.0\% \times 3.617\%) + (45 \text{ certified facilities} \times \$44)]$ in FY22-23 and subsequent years.
- The recurring decrease in local sales tax revenue is estimated to exceed \$2,939 $[(\$450,000 \times 7.0\% \times 3.617\%) + (45 \text{ certified facilities} \times \$40)]$ in FY22-23 and subsequent years.
- The total recurring decrease in state revenue is estimated to exceed \$33,466 $(\$1,125 + \$32,341)$ in FY22-23 and subsequent years.

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.

A handwritten signature in black ink that reads "Krista Lee Carsner". The signature is written in a cursive, flowing style.

Krista Lee Carsner, Executive Director

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